

Indian Economic Diplomacy: A Case Study of the Act East Policy

Ramya Singh*

PhD Research Scholar, Department of Political Science, University of Rajasthan, Jaipur.

*Corresponding Author: jhimrim915@gmail.com

Abstract

Economic diplomacy is a form of diplomacy that utilises a country's economic tools to advance its national interests, covering all the international economic activities of a country. India's "Act East Policy" was launched in 2014 by Prime Minister Narendra Modi, at the 2014 ASEAN-India Summit held in Myanmar, representing a significant shift in the country's foreign policy framework, placing economic diplomacy at the core of its engagement with East and Southeast Asia. With the aim of analysing Indian economic diplomacy, this paper examines the Act East Policy as a case study, focusing on its purpose, and its success in enhancing Indian economic, strategic, and institutional relationship with the ASEAN region and the larger Indo-Pacific. The study will examine the different dynamics of economic cooperation and integration under the Act East policy with specific reference to the Regional Framework of "ASEAN PLUS SIX", to determine how the partnerships have enhanced trade, investment and commercial relationships in the region. It also evaluates the issue facing the policy such as infrastructural limitations, trade imbalances, geopolitical rivalry and gaps in implementation. By adopting a qualitative and analytical approach, the paper evaluates the effectiveness of the Act East Policy as a tool of economic diplomacy. The overall objective of the paper is to evaluate the various achievements, and challenges faced by the Act East policy, while also giving recommendations for ensuring its success in establishing India as a prominent economic player in the region. Moreover, this research paper would help policymakers, administrators, academicians, researchers and students in understanding the dynamics of Indian economic diplomacy and its implications for India's Act East Policy.

Keywords: Indian Economic Diplomacy, Act East Policy, ASEAN, ASEAN Plus Six Regional Framework, Indo-Pacific, Foreign Policy.

Introduction

Basically, Economic Diplomacy is a foreign policy tool and can be defined as the aspect of diplomacy that focuses on international economic relations. It refers to "the process through which countries tackle the outside world, to maximize their national gain in all the fields of activity including trade, investment and other forms of economically beneficial exchanges, where they enjoy comparative advantage; it has bilateral, regional and multilateral dimensions, each of which is important" (Rana, 2007). It is hence an art of serving economic, political and strategic interests of the country through application of economic tools in the conduct of International relations. The economic factors today define choices of foreign policy, strategic partnerships, and geopolitical alignments in a globalized economy as never before, as countries compete and cooperate in the global economy. It has become an essential part of the global affairs within the contemporary world, and it frequently overshadows the more traditional military or political issues.

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India's "Act East Policy" was "launched in 2014 by Prime Minister Narendra Modi, at the 2014 ASEAN-India Summit held in Myanmar (PIB, 2014). It is the successor to Look East Policy promulgated in the year 1992, by then Prime Minister P.V. Narasimha Rao. While the Look East Policy focused on only South East Asia, the Act East Policy have a much broader geographical scope covering East Asia and broader Indo- Pacific region as well. Through initiatives such as infrastructure development, manufacturing, trade, and smart city projects, the policy aims to build stronger economic ties with this region contributing to India's rise as a regional power and countering China's influence in the region. Moreover, it focuses on four key pillars like Culture, Commerce, Connectivity and Capacity building (the 4 C's) and this is in sync with India's broader vision of Security and Growth for All in the Region (SAGAR), which aims to promote stability, security and economic growth for the entire Indian Ocean region.

The ASEAN (Association of Southeast Asian Nations) grouping is central to the Act East policy and one of the key aspects of the policy is enhancing economic cooperation and collaboration within the "ASEAN PLUS SIX" (ASEAN + 6) regional grouping or framework. India itself is a part this regional grouping and it includes eleven ASEAN countries and six major East Asian dialogue partners like China, Japan, South Korea, New Zealand, Australia and India. The main aim of this grouping is promoting regional economic integration, trade, investment, connectivity, and infrastructure development within the partner countries.

The main focus of the policy is on the development of North-Eastern Region of India through enhancing trade, Commerce, connectivity and investment between this region and countries of Southeast Asia and East Asia. India has been actively involved in infrastructure projects like the Kaladan Multimodal Transit Transport Project and Trilateral Highway Project connecting the North East region of India with Myanmar and Thailand. Moreover, India-Japan Act East Forum, was established in 2017 with an aim to identify specific projects for economic modernization of North-Eastern Region.

The present study aims to analyse Indian economic diplomacy through a case study of the Act East Policy, examining its evolution from the Look East Policy to a more action-oriented Act East Policy. It is interested in the economic aspect of the policy such as trade, investment and connectivity of the region with specific reference to the ASEAN Plus Six structure as a medium of economic integration. The paper assesses the successes and shortcomings of the Act East Policy and how it will evolve in the future by providing policy-relevant suggestions and concluding remarks on how to enhance the economic participation of India in the region.

Shift from Look-East to Act-East Policy

The Look East Policy was the first step towards the involvement of India in the East and Southeast Asia although it was mainly marked by superficiality and reserved interaction. The shift in the policy towards the Look East Policy being replaced by the Act East Policy was a great change towards a more active, dynamic, and more comprehensive approach to the engagement of the region. This transition was an indicator of the increased confidence that India was gaining as an emerging regional power and its willingness to make tangible political actions to strengthen economic, strategic and diplomatic ties with East and Southeast Asia.

A number of forces were behind this shift, chief among them being the booming economic growth of East Asia- specifically China, and its growing power in the Indo-Pacific region. These events led India to realise that it needed to engage in more active economic activities and participation in the creation of the regional security structure. India aimed to counter the rising aggressiveness of China, particularly in areas of strategic importance, like the South China Sea and the Indian Ocean, by reinforcing its relations with its partners in the region, including Japan, South Korea and the ASEAN member states. Moreover, The Act East Policy is further in line with the evolving Indo-Pacific policy of India as Indo-Pacific became a key focus in worldwide commerce, economic activities, and security, hence, India sought to increase its diplomatic outreach and widen economic and security relations in this area.

Under this macro context, the economic diplomacy agenda of the Act East Policy is to enhance economic interrelationships of India with its eastern neighbours. Such goals involve intensifying the physical connectivity of the north-eastern states of India with its neighbours, development of infrastructure and trade facilitation, further economic integration by enhancing India-

ASEAN and Indian-East Asian trade and investment linkages, enhancing regional connectivity via development of transport and logistics corridors, increasing market accessibility through bilateral and multilateral trade agreements, and fostering cultural and human capital engagement by promoting people-to-people interactions and the utilization of the Indian diaspora to enhance India's economic relations.

The Economic Dimension of the Act East Policy

The pillars of the economy of the Act East Policy of India are trade, investment, and connectivity. India has been increasingly trading with East and Southeast Asia - especially with ASEAN since the 1990s, and the Act East Policy aims to further enhance this integration through enhancing economic activities, trade infrastructure, and investment flows. Regional trade agreements including the ASEAN-India Free Trade Area (AIFTA) have been instrumental in ensuring improved market accessibility, minimising trade barriers and facilitating investment, which has aided in the growth of Indian exports including pharmaceuticals, textiles and information technology services. On the same note, the Japan-India Comprehensive Economic Partnership Agreement (CEPA) has strengthened the economic relationship between India and Japan not only in the area of trade, but also in the area of infrastructure development, technological transfer, as well as capacity building. Although these gains occurred, ongoing trade deficits with the ASEAN countries point to the necessity of enhanced competitiveness and more integration.

The economic goals of the Act East Policy are also facilitated by connectivity and infrastructure development. India-Myanmar-Thailand Trilateral Highway and Kaladan Multi-Mode Transit Transport Project, are flagship projects that will focus on physical connectivity, the cost of logistics, and access to Southeast Asian markets. Such efforts are especially important to incorporate the north-eastern part of India into regional value chains. Meanwhile, increasing economic interdependence is manifested in the rising investment in India infrastructure, manufacturing and technology by East Asian nations particularly Japan, South Korea and Singapore. On the whole, the Act East Policy aims to transform economic diplomacy into a practical result, by connecting trade growth with connectivity and investment led growth.

“ASEAN PLUS SIX” Regional Framework: Economic Cooperation and Integration

The ASEAN Plus Six (ASEAN+6) framework is a unification of the ASEAN member countries and 6 other countries namely, Australia, China, India, Japan, New Zealand and South Korea. It is a vital institutional component of India's Act East Policy as it is a formal platform of economic cooperation and integration of the these above countries. The framework, anchored on the ASEAN-led mechanisms such as the ASEAN Secretariat, ASEAN+6 dialogues, and network of free trade agreements (FTAs), supports the interaction of India with East and Southeast Asia in terms of trade liberalisation, investment cooperation, and connectivity through supply chains. Platforms of institutional dialogue also enhance economic cooperation. Policy coordination is regularly made through forums like the East Asia Summit, ASEAN Economic Ministers (meetings with Plus Six partners) and regional working groups on connectivity, trade facilitation, and supply chains. Free trade agreements like the ASEAN-India Free Trade Area (AIFTA), and the FTAs of ASEAN with other Plus Six countries have increased the market access and made India able to be a part of regional production networks, especially in services, technology, pharmaceuticals and other emerging markets like renewable energy. At the same time, various issues like non-tariff barriers, uneven economic growth, and asymmetrical trade patterns have indicated that India should reinforce existing FTAs, enhance trade facilitation, and streamline domestic reforms to the regional standards. In general, the ASEAN+6 system strengthens the strategic and economic underpinnings of the Act East Policy by integrating India into the new regional economic order of Asia and promoting greater economic integration and collaboration.

Achievements

The ASEAN has become one of the important economic partners of India through which the flow of trade and investment has increased. There has been an increase in bilateral trade between India and ASEAN but at a consistent level of imbalance. There has also been an increase in financial cooperation in the form of ASEAN-India Fund, ASEAN-India Green Fund, and ASEAN-India Science and Technology Fund, where collaborative projects are financed in research, innovation

and entrepreneurship. Active diplomatic activities of India in this region have made India a well-known economic partner in the Indo-Pacific region.

India has been physically integrated with the southeast Asian economies through connectivity projects. One of the significant infrastructure projects is the India-Myanmar-Thailand Trilateral Highway and its proposed extensions to Laos and Cambodia. The connectivity via sea has also been enhanced by the introduction of the new shipping services between the ports of India and the ASEAN ports. There are now greater air connectivity and more and more direct flights between India and ASEAN cities which are boosting tourism and business travel.

Challenges

One of the biggest geopolitical threats, which the Act East Policy of India is facing, is the economic dominance of China in Southeast and East Asia. China has developed over the last twenty years as the leading trade partner, investor and infrastructure financier to most of the ASEAN and East Asian nations. All this makes it difficult for India to develop its own economic footprint in the entire region.

Trade deficits and unwillingness to enter into wider regional institutions like the Regional Comprehensive Economic Partnership (RCEP) restrict access to greater economic integration of India. Besides, tariff barriers and non-tariff barriers, bureaucratic delays and lack of harmonization of standards have discouraged an increase of trade and investment flows. The greater involvement of ASEAN into China via RCEP and other processes has further pushed India backwards, restricting its integration into regional economies.

As India has expanded its diplomatic and economic reach, not all countries in ASEAN have been very quick to reciprocate. In some instances, ASEAN partner countries do not have an institutional preparedness or strategic clarity of engaging with India on an equal basis. Moreover, projects such as India-Myanmar-Thailand Trilateral Highway, have been delayed due to a mix of infrastructural and political reasons. Additionally the border and terrain issues in the Northeast of India and political insecurity in transit nations such as Myanmar are some of the factors that hinder a smooth connectivity.

Key Recommendations

One of the key challenges that will shape the future of India's Act East Policy is its ability to balance its relations with China. As India tries to balance China's rising influence in the region by countering its power, it should also acknowledge the economic and strategic value of involving itself pragmatically and diplomatically with China in all such matters where mutual economic interests align. Such a complementary relationship will be key to the further success of the Act East Policy. Moreover, India needs to adopt a more proactive and action-oriented approach across the entire region to strengthen the effectiveness of its economic diplomacy under the Act East Policy. The political determination and enhancement of coordination between ministries, state governments and non-state actors are required to facilitate timely execution of different connectivity and infrastructure projects. The involvement of India and the ASEAN can be more feasible and beneficial with the help of clear country specific plans of the member countries and the five other partner countries - Japan, South Korea, Australia, New Zealand, and China. Additionally, economic cooperation must be enhanced through increased trade liberalisation, modernisation of the current trade agreements, and promotion of Indian investment in the major sectors of technology, clean energy, healthcare and food security. It will be essential to resolve the issue of trade imbalances and minimise the nontariff barriers in order to achieve greater economic integration. Furthermore, enhancing connectivity is a concern. The access to the Southeast Asian markets can be improved by faster infrastructure development projects and improved border facilities in the Northeast of India. Meanwhile, digital collaboration-particularly in fintech and digital governmental services and the investigation of new areas like green technology provide new possibilities to trade, tourism, and people-to-people exchange. Lastly the success of the policy lies in its capacity to cope with the dynamic challenges of the Indo-Pacific region. With the world economic and geopolitical environment constantly changing, the Act East Policy will have to be adaptable to the new realities.

Conclusion

This paper has examined the Indian economic diplomacy under the Act East Policy which has seen a transformation from a passive and reactive Look East Policy to a proactive and action-oriented Act-East Policy. It has explored the economic aspects of the policy such as trade, investment and connectivity and highlighted the relevance of ASEAN Plus Six regional structure in the process of enhancing the integration of these regional economies. Although the Act East Policy has helped India increase its economic activities with East and Southeast Asia, issues like trade imbalances, connectivity issues, and unequal engagement with Asean partners remain. To enhance the effectiveness of the policy, it will be necessary to address these challenges by enhancing institutional coordination, country-specific policies, and by embedding economic cooperation. In this regard, the Act East Policy remains a key pillar of economic diplomacy and Indo-Pacific vision of India. The policy has a huge potential to help integrate the regional economies, maintain strategic stability, and achieve a win-win growth in the greater Indo-Pacific region with a long-term political commitment, institutional coordination, and implementation.

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